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E.O. 11652: XGDS-2

TAGS: EG, IS, PINR

SUBJECT: INTSUM 623 - AUGUST 8, 1978

LONDON FOR KINSOLVING
PARIS FOR NICHOLAS MURPHY
OTHER ADDRESSEES FOR CHIEFS OF MISSION

WARNING NOTICE SENSITIVE SOURCES AND METHODS INVOLVED NOT
RELEASABLE TO FOREIGN NATIONALS

1. EGYPT. THE EGYPTIAN CABINET ON AUGUST 6 ISSUED A STATEMENT SUPPORTING SADAT'S DECISION TO FORM A NEW POLITICAL PARTY. ACCORDING TO EMBASSY CAIRO, THE MAJOR STORY IN ALL EGYPTIAN PAPERS YESTERDAY WAS THE ANNOUNCEMENT OF THE NAME OF THE NEW PARTY (NATIONAL DEMOCRATIC PARTY) AND THE CLARIFICATION OF ITS GOALS. SADAT IS SCHEDULED TO MEET NEXT WEEK WITH THE 140-MEMBER PREPARATORY COMMITTEE IN DISCUSSIONS THAT WILL FOCUS ON THE PARTY'S PROPOSED PROGRAM: FOOD FOR EVERY MOUTH, HOUSING FOR EVERY FAMILY, AND AN ATMOSPHERE CONDUCIVE TO INTENSIFIED WORK AND HIGHER PRODUCTION.

2. EMBASSY CAIRO ALSO NOTES THAT, IN CONTRAST TO EARLIER UPPEAT PRESS REPORTS CONCERNING ECONOMIC AID FROM THE GULF STATES, RECENT AL-AHRAM ARTICLES HAVE BEEN MORE SUBDUED.

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A4 AUGUST 4 ARTICLE, FOR EXAMPLE, IS NOTEWORTHY IN THAT IT ATTEMPTS TO DEAL TO SOME EXTENT WITH DONOR CONCERNS, RATHER THAN INSISTING THAT ARAB AID IS DUE EGYPT AS ITS NATURAL RIGHT IN RECOMPE4SE FOR THE COSTS OF ITS CONFRONTATION WITH ISRAEL.

3. DIRECTOR OF MILITARY INTELLIGENCE SHAWKAT TOLD OUR DEFENSE ATTACHE HE RECENTLY ADVISED EGYPT'S LEADERS AT A HIGH-LEVEL MEETING THAT EGYPT SHOULD NOT TERM14ATE THE UNEF SINAI AGREEMENT IN OCTOBER. HE CLAIMED THAT "PRESSURE ON EGYPT WOULD HAVE TO COME FROM OTHER MEANS" AND THAT IT WOULD BE SELF-DEFEATING TO TERMINATE THE AGREEMENT. HE ADDED THAT THE GOVERNMENT HAD NOT MADE A FINAL DECISION ON THE MATTER AS OF AUGUST 5. (SECRET/NOFORN)

4. SYRIA. ASSAD MAY BE FACING A MAJOR DECISION OVER HIS POLICY IN LEBANON. HIS TROOPS HAVE BEEN THERE FOR NEARLY TWO AND ONE HALF YEARS, BUT THE SYRIANS ARE NO CLOSER TO OBTAINING THEIR OVERALL OBJECTIVE OF MAINTAINING A RELATIVELY STABLE UNIFIED LEBANESE STATE THAT IS RESPONSIVE TO DAMASCUS' INFLUENCE.

5. ON THE ONE HAND, THE SYRIAN INTERVENTION HAS LED TO A GREATLY INCREASED ROLE FOR DAMASCUS IN LE9ANON'S AFFAIRS, REDUCED DIFFERENCES BETWEEN SYRIA AND THE MODERATE PALESTINIANS, RESULTING IN CLOSE COOPERATION BETWEEN THEM, AND REDUCED THE INFLUENCE OF PRO-IRAQI PALESTINIAN AND

LEBANESE LEFTISTS, WHILE FOSTERING THE GROWTH OF PRO-SYRIAN ELEMENTS.

6. ON THE OTHER HAND, HOWEVER, THE SYRIAN INTERVENTION HAS ALIENATED THE CHRISTIAN/RIGHTIST FORCES. THIS PROCESS, IN TURN, HAS RESULTED IN THE CONTINUING CONFRONTATION WHICH HAS COST THE SYRIANS MANY MEN AND IS SAPPING THE ARMY'S MORALE. MOREOVER, THE ISOLATION OF THE CHRISTIAN COMMUNITY HAS LED TO DIRECT AND OPEN DEALINGS WITH THE
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ISRAELIS, WHO NOW HAVE A SIGNIFICANT VOICE IN LEBANESE AFFAIRS, BOTH NORTH AND SOUTH.

7. THE SYRIANS ARE THEMSELVES MILITARILY EXTENDED. THEY HAVE WEAKENED THEIR FORCES ON GOLAN AND SCATTERED THIRTY THOUSAND TROOPS THROUGHOUT LEBANON IN A POLICE ACTION. THESE FORCES ARE NOT ORGANIZED IN A MANNER THAT COULD ENABLE THEM TO DEFEND THE SYRIAN HOMELAND IF THE ISRAELIS ATTACK. MOREOVER, BECAUSE OF THE LARGE TROOP COMMITMENT

TO LEBANON, THE ARMY HAS NOT BEEN ABLE TO TRAIN PROPERLY FOR TWO YEARS. FURTHERMORE, THE OPERATION IS COSTLY. ASSAD RECENTLY ASSERTED THAT ARAB AID TO PAY FOR THE SYRIAN EXPENSES IS \$120 MILLION ANNUALLY, BUT, HE SAID, SYRIAN COSTS ARE SIX TIMES THAT. FINALLY, ASSAD APPEARS SURPRISED AND HURT BY THE HOSTILE WESTERN REACTION.

8. ASSAD'S MILITARY ADVISERS ARE DIVIDED OVER THE COURSE SYRIA SHOULD FOLLOW IN THE FUTURE. SOME FAVOR A MILITARY SOLUTION TO CRUSH THE RIGHTISTS, WHILE OTHERS WOULD PREFER THAT SYRIAN FORCES BE WITHDRAWN.

9. ASSAD'S DILEMMA IS FURTHER COMPLICATED BY DOMESTIC POLITICAL CONSIDERATIONS. A WITHDRAWAL OF HIS FORCES FROM LEBANON WOULD BE VIEWED IN SYRIA AS A TACIT ADMISSION THAT HIS POLICY FOR THE PAST THREE YEARS HAD FAILED. THE ARMY WOULD BE HUMILIATED AND TURN AGAINST HIM. IF THE ARMY STAYS, SYRIAN CASUALTIES WILL INCREASE, AS WILL DOMESTIC FRUSTRATION AND ANTI-ASSAD PLOTTING.

10. IF ASSAD WERE TO LAUNCH A MAJOR OFFENSIVE AGAINST THE CHRISTIANS, THE ISRAELIS WOULD BE LIKELY TO INTERVENE. A MAJOR DEFEAT OF THE SYRIAN ARMY ALMOST CERTAINLY WOULD
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BE FATAL TO HIS PRESIDENCY. ASSAD, THEREFORE, MUST TREAD A DIFFICULT COURSE. HE APPEARS TO BE HOPING TO FOSTER AN ANTI-RIGHTIST COALITION WHICH COULD ERODE MARONITE OPPOSITION FROM WITHIN. THIS PLAN, HOWEVER, MAY BE USEFUL

THINKING. FEW CHRISTIANS WILL WANT TO BE ASSOCIATED WITH A SYRIAN-SPONSORED COALITION. EVEN ASSAD'S POWERFUL CHRISTIAN ALLY -- FORMER PRESIDENT FRANJIYAH -- APPEARS TO BE LOSING SOME OF HIS TRADITIONAL FOLLOWING BECAUSE OF HIS ASSOCIATION WITH THE SYRIANS. (SECRET)

11. IRAQ-PALESTINIANS. LE MONDE YESTERDAY REPORTED THAT ARAFAT HAS CALLED ON ALL PLO REPRESENTATIVES TO DENOUNCE THE ROLE OF THE IRAQI INTELLIGENCE SERVICES IN THE RECENT ATTACKS ON PALESTINE OFFICIALS. MEANWHILE, THE IRAQI MEDIA HAVE BLAMED THE PALESTINIAN RIGHT FOR THE WAVE OF VIOLENCE BETWEEN IRAQ AND THE PALESTINIANS, BUT A HIGH BAATH PARTY OFFICIAL CALLED YESTERDAY FOR A DIALOGUE WITH THE PLO TO DISCUSS DIFFERENCES BETWEEN THE TWO PARTIES. HE ALSO CLAIMED THAT ARAFAT HAD AGREED TO BEGIN TALKS IN BEIRUT. OUR BAGHDAD INTERESTS SECTION COMMENTS THAT, DESPITE THE IRAQI-PALESTINIAN VIOLENCE, BAGHDAD'S EFFORT TO IMPROVE ITS IMAGE MAY SERVE TO MODERATE ITS REACTIONS. THERE ARE INDICATIONS THAT REVOLUTIONARY ZEAL MAY HAVE TO BE SUBLIMATED TO PUBLIC RELATIONS. BUT IF BAGHDAD MAKES SUCH A DECISION, THE PROBLEM WOULD REMAIN OF HOW TO SHUT OFF THE IRAQI-BACKED TERRORIST GROUPS THAT ARE INVOLVED AND NOT ALWAYS AMENABLE TO CONTROL. (CONFIDENTIAL)

12. SAUDI ARABIA. SAUDI ARABIA IS HAVING A TEMPORARY PROBLEM WITH CASH FLOW AS A RESULT OF POOR PLANNING AND REDUCED OIL OUTPUT. A BUDGET DEFICIT AS HIGH AS \$5 BILLION COULD DEVELOP THIS FISCAL YEAR, AND SAUDI OFFICIALS ARE ALREADY DELAYING REINVESTMENT OF MATURED FOREIGN SECURITIES. WITH SOME \$60 BILLION IN FOREIGN ASSETS, HOWEVER, THE SAUDI FINANCIAL POSITION IS STILL VERY STRONG.

13. THE CASH FLOW PROBLEM IS LARGELY A CONSEQUENCE OF
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LOOSE, UNCOORDINATED BUDGET PLANNING. THE FINANCE MINISTRY HAS BASED REVENUE ESTIMATES FOR THE CURRENT FISCAL YEAR ON 8.5 MILLION BARRELS PER DAY IN ARAMCO OIL OUTPUT, BUT HAS APPROVED SPENDING REQUESTS FROM MINISTRIES THAT FAR EXCEED POSSIBLE REVENUES FROM THIS LEVEL OF PRODUCTION. ARAMCO PRODUCTION, MOREOVER, IS NOW DOWN TO 7.2 MILLION BARRELS PER DAY, IN PART BECAUSE OF A LIMITATION ON EXPORTS OF LIGHT CRUDE IMPOSED BY THE OIL MINISTRY.

14. DURING THE PAST SEVERAL YEARS, GROWING OIL REVENUES EASILY COVERED GOVERNMENT EXPENDITURES AND THE SAUDIS HAD LITTLE NEED TO PAY CLOSE ATTENTION TO BUDGET ACCOUNTS. EXPENDITURES, IN FACT, WERE EXAGGERATED TO MAKE IT APPEAR THAT THERE WERE NO SURPLUS OIL REVENUES, IN ORDER TO EASE PRESSURES ON THE SAUDIS FOR FOREIGN ASSISTANCE.

15. WITH THE PROSPECT OF CONSTANT OR DECLINING REVENUES IN 1978-79, THE PICTURE WAS CHANGED. IN MID-JUNE THE

COUNCIL OF MINISTERS ORDERED A ONE-THIRD CUTBACK IN EXPENDITURES. EVEN IF THE REDUCED SPENDING LEVEL IS ACHIEVED, A DEFICIT IS STILL LIKELY BECAUSE DAILY OIL OUTPUT IS LAGGING BEHIND THE 8.5-MILLION-BARREL ESTIMATE.

16. THE JUNE DECREE'S PRECISE IMPACT ON THE ECONOMIC DEVELOPMENT PROGRAM IS HARD TO ASSESS. MANY MINISTERS DELAYED MAKING ANY CUTBACKS BECAUSE THEY DID NOT BELIEVE THE CUTS WOULD BE ENFORCED. THE DECREE STANDS, HOWEVER, AND SOME FAT WILL BE TRIMMED FROM THE PROGRAM. AS MINISTRIES REASSESS PRIORITIES, PROJECTS REMAIN IN LIMBO, FUNDS ARE FROZEN, AND A MOOD OF UNCERTAINTY PREVAILS AMONG ADVISERS AND CONTRACTORS; SOME IMPORTANT PROJECTS COULD BE DELAYED.

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17. THE CASH FLOW PROBLEM AND THE POSSIBILITY THAT NATIONAL DEVELOPMENT COULD BE CONSTRAINED BY INCOME ARE BECOMING INCREASINGLY EVIDENT IN SAUDI ARABIA. THE GOVERNMENT WILL NEED TO PAY CLOSER ATTENTION TO BUDGET PLANNING AND PROVIDE A MECHANISM FOR ORDERLY FINANCING OF DEFICITS THAT MAY OCCUR IN THE IMPLEMENTATION OF DEVELOPMENT GOALS. (CONFIDENTIAL/NOFORN) CHRISTOPHER

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